



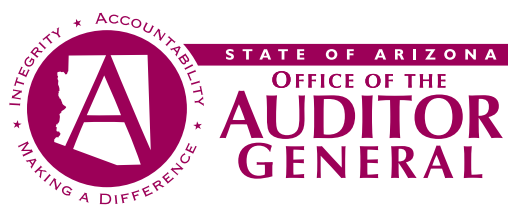
A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Gila Bend Unified School District No. 24

Year Ended June 30, 2003



Debra K. Davenport
Auditor General

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Accounting Services Division Staff

Jerry Strom, Manager and Contact Person
jstrom@auditorgen.state.az.us

Roger Walter
Kate Reiner

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

December 22, 2004

Governing Board
Gila Bend Unified School District No. 24
P.O. Box V
Gila Bend, AZ 85337-0420

Members of the Board:

We have reviewed the District's single audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2003, to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Jerry Strom, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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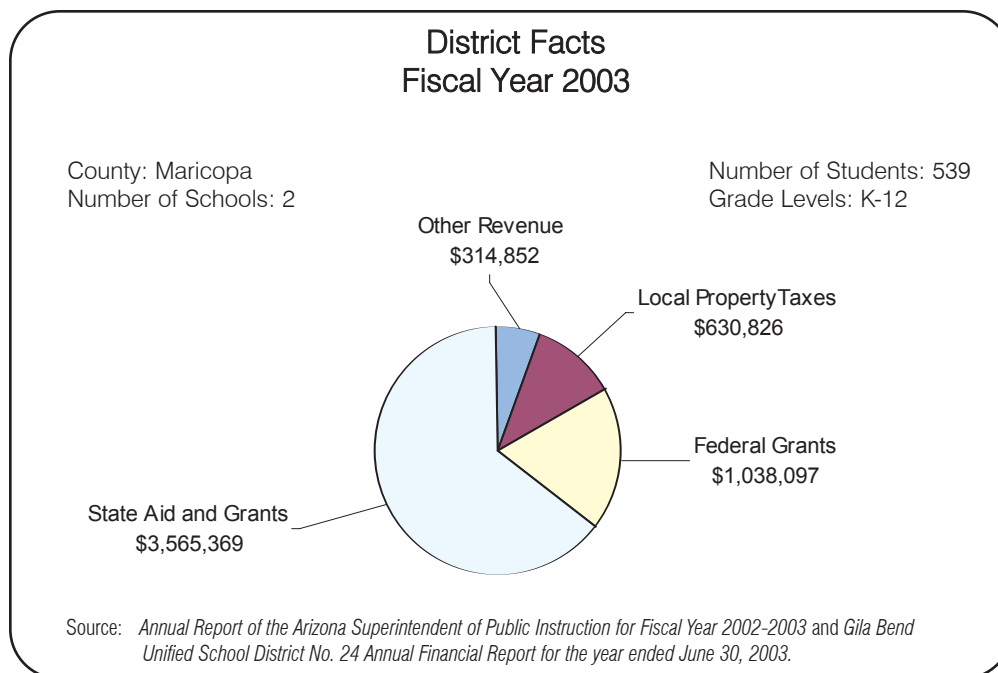
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INTRODUCTION

Gila Bend Unified School District No. 24 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$5 million it received in fiscal year 2003 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2003, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



The District should maintain a complete and accurate capital assets list

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. Effective stewardship requires the District to have accurate lists of these assets and to ensure they are properly accounted for.

The District's auditors issued a qualified opinion on the District's financial statements because of inadequate capital asset records and controls.

However, the District did not have a complete and accurate capital assets list. In addition, the District did not reconcile its physical inventory to the capital assets list, capital acquisitions to capital expenditures, or the current year's list to the previous year's list. As a result of the District's inadequate records and controls over capital assets, the District's auditors qualified their opinion on the financial statements.

Recommendations

The following procedures can help the District ensure that its capital assets are adequately controlled:

- Maintain a capital assets list of all items costing \$5,000 or more and with useful lives of 1 year or more.
- Maintain a stewardship list of all equipment items costing \$1,000 or more, but less than \$5,000, or the District's capitalization threshold approved by the Governing Board if less than \$5,000.
- Record capital assets at actual historical cost. If the District cannot locate documentation to support the actual historical costs of its capital assets, it may use estimated historical costs obtained from historical cost appraisals, bond issue documents, governing board meeting minutes, or vendor catalogs.
- Perform a physical inventory of all equipment items at least every 3 years. Assign an employee who has no custodial responsibilities to reconcile the physical inventory results to the list and add items to or remove items from the list as necessary.
- Reconcile items added to the capital assets list during the fiscal year to capital expenditures for that year, the prior year's capital assets list to the current year's list, and make all necessary corrections.

USFR pages VI-E-2 and 3 describe the information that should be recorded on the capital assets list.

The forms on USFR pages VI-E-13 and 14 may be used to reconcile capital asset additions to capital expenditures and the current year's capital assets list to the prior year's list.

The District must follow competitive purchasing requirements

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the School District Procurement Rules or USFR guidelines. For example, for three of four purchases requiring competitive sealed bids, the District did not follow proper bidding procedures. In addition, the District did not always obtain oral or written price quotations for purchases that required them.

The District did not always follow competitive sealed bidding requirements, and therefore, could not ensure it received the best value for the public monies it spent.

Recommendations

To strengthen controls over competitive purchasing and to comply with School District Procurement Rules and USFR guidelines, the District should establish and follow the policies and procedures listed below:

- Issue invitations for bids or requests for proposals for purchases of construction, materials, or services exceeding \$32,899. The purchase may be a single item or it may be a collection of items that, in the aggregate, exceed \$32,899.
- Obtain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000, and written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$32,899. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.

School District Procurement Rules provide the requirements for invitations for bids and requests for proposals.

USFR guidelines require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$32,899.

The District's controls over auxiliary operations and student activities monies should be strengthened

Auxiliary operations monies are district monies raised in connection with bookstore and athletic activities. The District holds student activities monies raised through students' efforts for safekeeping. The Governing Board is responsible for establishing oversight for these monies to ensure that proper procedures are followed for collecting and

Poor cash controls left auxiliary operations and student activities monies susceptible to loss, theft, or misuse.

spending monies. However, the Governing Board did not establish proper oversight. Specifically, prenumbered and numerically controlled cash receipt forms were not prepared by cashiers or student clubs, cash receipts were not deposited in a timely manner, and bank reconciliations were not always prepared. In addition, the auditors could not determine that receipts were recorded in the District's Cash Receipts and Disbursements Journal because the District did not clearly record cash receipts in the journal. Further, the District did not always retain vendor invoices or store receipts documenting how monies were spent, and the Governing Board did not appoint a student activities treasurer.

Recommendation

To strengthen cash controls over auxiliary operations and student activities monies, the District should prepare prenumbered and numerically controlled cash receipt forms for amounts received. If it is not practical to prepare cash receipt forms for student activities monies received, such as monies received for bake sales, the District should prepare cash collection reports to document cash collected. Also, the District should deposit cash receipts intact daily, when significant, or at least weekly, record all cash collections in the Cash Receipts and Disbursements Journal, and prepare bank account reconciliations in a timely manner. In addition, invoices or receipts should be retained to support auxiliary operations expenditures and student activities disbursements. Further, the District should ensure that the Governing Board appoints a student activities treasurer to be responsible for student activities.

The District should maintain and report accurate financial information

The District's Governing Board depends on accurate information so it can fulfill its oversight responsibility. The District also needs to report accurate information to the public and agencies from which it receives funding. To achieve these objectives, management should ensure that its accounting records and annual financial report (AFR) are accurate and complete. However, the District did not fully accomplish these objectives. Specifically, journal entries were not always approved by someone other than the preparer or supported by documentation. Also, the District did not allocate Classroom Site Fund (CSF) revenues among the three funds accurately as required by Arizona Revised Statutes §15-977.

The District did not allocate Classroom Site Fund monies as required by Arizona Revised Statutes.

In addition, the auditors determined that the District did not provide accurate and complete information on its AFR. For example, budgeted and actual revenues and expenditures reported on the AFR did not always agree with the District's accounting

records. Further, a majority of the Governing Board members did not sign the AFR and the Governing Board President did not complete and sign the AFR Summary.

Recommendations

The following procedures can help the District record and report accurate accounting information:

- Require that a supervisor review and approve all journal entries before they are recorded in the accounting records. Ensure that each journal entry contains explanations, attachments, or document references to support the entry.
- Allocate CSF revenues in the following manner: Fund 011—Classroom Site (Base Salary) Fund receives 20 percent; Fund 012—Classroom Site (Performance Pay) Fund receives 40 percent; and Fund 013—Classroom Site (Other) Fund receives 40 percent.
- Use the District's accounting records to obtain budgeted and actual revenues and expenditures for the AFR.
- Require a second employee to verify that amounts reported on the AFR agree with the accounting records before submitting it to ADE.
- Ensure that after the Governing Board approves the AFR for submission, a majority of the Governing Board members sign the AFR. The Governing Board President should complete and sign the certification on the AFR Summary.

USFR Memorandum No. 194 provides guidance on accounting for CSF revenues.

The District should strengthen controls over expenditures

The District spends tax dollars to purchase goods and services, so it is essential that the District follows procedures designed to help ensure that its purchases are approved before committing district monies and that its expenditures are supported. However, the District did not always prepare purchase orders before ordering goods and services. In addition, receiving reports were not always prepared when goods were received, and the District did not always indicate on the purchase orders or requisitions the dates that goods were received. Further, vendor invoices were not always retained.

Recommendations

To strengthen controls over expenditures, the District should establish and follow the policies and procedures listed below:

- Prepare purchase orders that are approved by an authorized employee prior to ordering goods or services.
- Have an employee who is not involved in purchasing prepare receiving reports indicating the date and quantity received, the items' condition, and the signature of the employee receiving the items. Receiving reports should be filed with purchase orders and requisitions.
- Retain all vendor invoices with purchase orders, requisitions, and receiving reports.